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DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
DECEMBER 15 TO DECEMBER 19, 2008

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of December 15 to December 19, 2008,
including the following:

-- GOI Banking on Infrastructure Projects to Revive Faltering
Economy
-- Telecom Regulator Seeks Clarity on 3G Policy
-- Bail-out Package for Air India Likely in January
-- Inflation Hits a 9-month Low
-- NHAI Again Falls Short of Project Deadlines
-- Parliament Passes the Unorganized Sector Bill
-- World Bank to Further Assist Infrastructure Sector
-- States Ask for Money to Cover VAT Revenue Losses
-- Retail Sector Slows Down Expansion Plans

GOI Banking on Infrastructure Projects
to Revive Faltering Economy

¶2. (U) At an infrastructure roundtable on December 19 organized by
the Confederation of Indian Industry (CII), several industry
analysts discussed and debated the impact and possible solutions to
the liquidity crisis in the infrastructure sector. The panelists
agreed that the GOI is relying on the infrastructure sector to
revive and kick start the economy. The Planning Commission has set
a target of investing \$500 billion in the infrastructure sector
during the Eleventh Plan. Of the planned total investment
requirement, the government is planning to raise 30 percent (or \$150
billion) of the funds in the private sector. At present, India
currently invests 5 percent of GDP in infrastructure and aims to
increase this to 9 percent by the end of the Eleventh plan period
(2012). In comparison, China is currently investing 15 percent of
its GDP in infrastructure projects. Project developers and
promoters cite the current liquidity crunch, higher interest rates,
and delayed rollout of infrastructure projects by the GOI as
important factors leading to the slowdown in this sector.

¶3. (U) According to representatives from the financial institutions,
the liquidity crunch has only extended to promoters who so far have
been unable to garner adequate equity. However, debt financing for
infrastructure projects, albeit at higher interest rates, is
available. Both Chairman Kohli of India Infrastructure Finance

Company and Chairman Chakrabarty of Punjab National Bank shared the view that interest rates are bound to come down as a response to the fiscal stimulus measures which have been announced by the GOI. Also, the decision to put in place refinancing schemes as well as the subordinate debt scheme will likely ease the liquidity crunch. According to Kohli, an additional \$100 million will be in place for financing infrastructure projects by April 2009. Yet, he commented that the problems of identifying and bringing forth bankable projects will remain. Kohli pointed out this will be further exacerbated if adequate and urgent measures are not taken in the infrastructure sector like increasing efficiency in implementing on-going projects, providing non-fiscal incentives (such as faster project clearances and more efficient land acquisition procedures), and a single window approach for monitoring and facilitating projects.

Telecom Regulator Seeks Clarity on 3G Policy

¶4. (U) Telecom Regulator Trai has requested that the communications ministry address several controversial issues prior to going ahead with the 3G auctions, particularly how the government plans to issue licenses to new companies that enter India via the 3G route. Trai has requested clarification on whether or not companies entering via the 3G route will have to pay an entry fee for a license and if 2G spectrum would be allotted to companies entering under successful 3G bids. Trai's questions to the ministry closely coincide with USG requests for clarification on the same policy.

Bail-out Package for Air India Likely in January

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¶5. (U) According to local media sources, a draft Cabinet note proposing a bailout for the National Aviation Company of India (NACIL), which operates Air India, has been submitted by the civil aviation ministry. The bailout package would be approximately USD 500 million to be put into effect in January. The government assistance would help Air India cope with high losses and the financial burden of fluctuating jet fuel prices. The additional costs of jet fuel prices from April to October were approximately USD 500 million. The civil aviation sector has been one of the most affected by the financial slowdown: the accumulated losses for the sector this fiscal year may reach USD 1.7 billion, with Air India accounting for almost half of this total. Air India currently owes about USD 150 million to the Airport Authority of India.

Inflation Hits a 9-month Low

¶6. (U) The annual inflation rate, as measured by the WPI, dropped to 6.84% for the week ending on December 6 (from 8% the week prior), primarily due to a fall in fuel prices. The declining inflation rate has again sparked hope in the private sector that the RBI will consider cutting interest rates again soon. Along with the drop in fuel prices, prices of food products have also decreased for the second straight week. This drop, analysts report, may provide the government with room for more aggressive monetary policies without inflationary consequences.

NHAI Again Falls Short of Project Deadlines

¶7. (U) Continuing its poor record of meeting project deadlines, the National Highway Authority of India (NHAI) once again failed to meet its October 2008 target date for completion of projects first launched in 2004. NHAI did not finish any of the 47 projects in the second phase of the North-South-East-West (NSEW) corridor. According to media reports, less than 50 percent of the work has been completed on 23 projects. The NSEW corridor is part of the government's flagship National Highway Development Program (NHDP), aimed at approximately 32,939 of four-lane highways across India.

¶8. (U) Also, 83 other projects which were launched in May 2004 and are scheduled to be completed by 2010 are behind schedule.

According to press reports quoting a senior NHAI official, the organization has been giving a free run to its contractors for the past four years. The official added that there is a "total lack of supervision and the authority has not made any effort to remedy the situation." However, the same report also quotes another official from the Ministry of Road Transport and Highway (MORTH) who asserted that the NHAI has sent show-cause notices to a dozen non-performing contractors who have not even completed 50 percent of the work.

¶9. (U) Highway development in India is expected to absorb USD 60 billion in investments over the next five years and has been identified as a key sector for sustained economic growth by the government. That said, problems with land acquisition, escalation of input costs, lack of cooperation by some state Governments, and interference by MORTH in day to day functioning of NHAI operations are causing significant delays in the commissioning of these projects.

Parliament Passes the Unorganized Sector Bill

¶10. (U) The long pending Unorganized Workers' Social Security Bill, 2008 was passed by both houses of Parliament, after rejecting amendments by the Left Parties that would have created a national welfare fund and extended health and insurance schemes for the workers. The legislation will provide social security and job protection to 375 million workers in the informal sector (including agriculture and construction sector) in the next five years. It will enable about 94 percent of workers below the poverty line in the informal sector to receive health, life, and group accident

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insurance, as well as pension benefits. Labor Minister Oscar Fernandes indicated that the national and state governments will establish social security advisory boards to recommend suitable welfare measures for different sections of unorganized sector workers. Certain health insurance and old age pension schemes for those below the poverty line have already been implemented. Fernandes described the legislation as the "first step in 60 years" to address the difficulties of the poor. The Communist Party of India (Marxist) who had supported the bill previously complained that the legislation fails to cover 90 percent of the workforce in the unorganized sector because most of them do not fall below the poverty line under the legislation. The bill now goes to President Patil for final review and signature.

World Bank to Further Assist Infrastructure Sector

¶11. (SBU) The World Bank plans to provide an additional sum of USD 3 billion for investment in India's infrastructure sector. The Bank has stipulated this additional amount is part of the total financing of \$14 billion proposed for India's Country Strategy for fiscal years 2009-2011. This additional amount will be channeled through the India Infrastructure Finance Company Limited (IIFCL) to help finance public-private partnerships in the infrastructure sector; fund Small Industries Development Bank of India so that it provides credit to small and medium firms; and provide money to the power grid to expand the transmission network. Some amount may be kept aside for recapitalization of some loss-making government-owned banks and for the National Housing Bank.

States Ask for Money to Cover VAT Revenue Losses

¶12. (SBU) Indian states are demanding an additional assistance of USD 4.3 billion (Rs 200 billion) from the Central government because of a sharp decline in state revenue. Value-added tax (VAT) revenues have declined in sectors such as real estate, iron and steel, cement and petrochemicals. Asim Dasgupta, Chairman of the Empowered Committee of State Finance Ministers on VAT, has proposed that this money be distributed to the states as per the formula laid under VAT rules and each state's need. (Note: the 2008-09 budget had allocated \$700 million (Rs 3292 crore) as compensation to states facing losses due to VAT implementation. End note.) The assistance would be spent on infrastructure, rural housing, and the social sector to stimulate

the economy. The Empowered Committee has also asked the national government to allow states to borrow more under the special additional market borrowing window.

Retail Sector Slows Down Expansion Plans

¶13. (U) The economic slowdown, combined with over-optimistic projections, may stunt the growth of organized retail this year. The Retailers Association of India stated this week that organized retailers will register approximately 15 percent growth in sales this year compared with 35 percent annual growth experienced in each of the past three years. Retail companies are adjusting their initial plans for expansion due to the slowdown: Reliance Retail, which set out to open 3,000 outlets of its grocery store Reliance Fresh in addition to hundreds of other formats by 2011, is well below this target. The retailer opened 800 outlets, but plans to shut or restructure 200 stores that are not profitable. Shuhiksha Trading Services, India's largest discount retailer that also planned to open hundreds of outlets across the country, has closed several stores amidst accusations that the company had not paid staff or vendors for months. Indiabulls Retail Services Ltd. has closed four out of nine hypermarkets and has lost approximately 90 percent of its stock value. HyperCity Retail Pvt. Ltd. has dissolved plans to open 250 outlets and 6Ten of REI Agro Ltd. has closed several dozen stores and cut employees.

¶14. (U) While several retail firms are reconsidering their growth and expansion plans, Bharti Retail Pvt. Ld is continuing to follow

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its strategy for a slow roll-out of 30 stores (varying from grocery stores to supermarkets to hypermarkets) in New Delhi by the end of ¶2009. Working with Wal-Mart Stores as their technical adviser and joint venture partner, Bharti Retail also plans to open 15 cash-and-carry stores that will supply retailers rather than household consumers. The Future Group's Pantaloon Retail Ltd. also appears to be doing well despite the economic slowdown and reportedly expects 30 percent growth in sales and at least 40 percent growth in net profit over the next two years.

¶15. (U) COMMENT: Organized retail sector growth, which has been expected to be the next big growth sector in the Indian economy as middle class consumer spending increases, has taken a hit from rising inflation over the past several months and the financial slowdown, or at least the perception of one. Analysts report that the crisis has affected consumer sentiment and predict discretionary spending to grow at only 4.5 percent this fiscal year, compared to 14-15 percent a year for the past four years. As consumers spend less and retail outlets remain unprofitable, organized retailers will likely revise their business plans. END COMMENT.

¶16. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

¶17. (U) This is the last weekly ECON Office highlights for 2008. Happy Holidays and a prosperous new year!

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